Active Strategies

JANUARY 2022

INVESTMENT QUORUM
UNIQUE, BOUTIQUE WEALTH MANAGEMENT

IQ Defensive Strategy

The aim of this portfolio is to provide a defensive total return strategy by investing through collective investment schemes.

The portfolio invests principally in lower risk assets – such as fixed-interest securities – but it does have the availability to diversify into other asset classes, such as global equities, property, alternatives, themes and targeted absolute return strategies. The portfolio can also hold a percentage weighting in cash deposits for both liquidity and tactical reasons.

RISK & REWARD PROFILE

LOWER RISK ← → HIGHER RISK

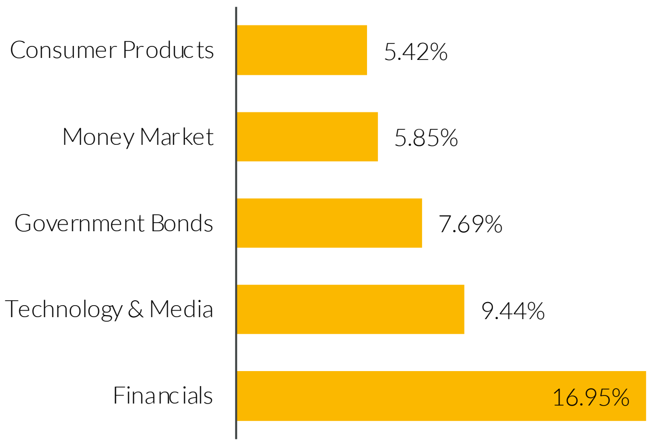
1 **2** 3 4 5 6 7

CURRENCY GBP

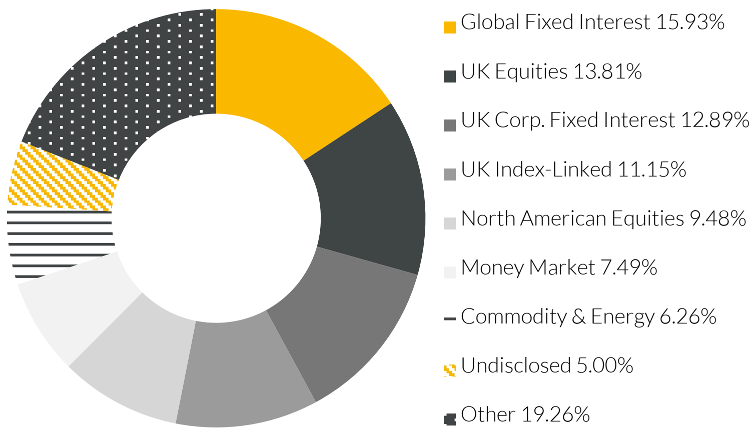
HISTORIC YIELD 0.77% p.a.

TOTAL FUND CHARGES 0.65% p.a.

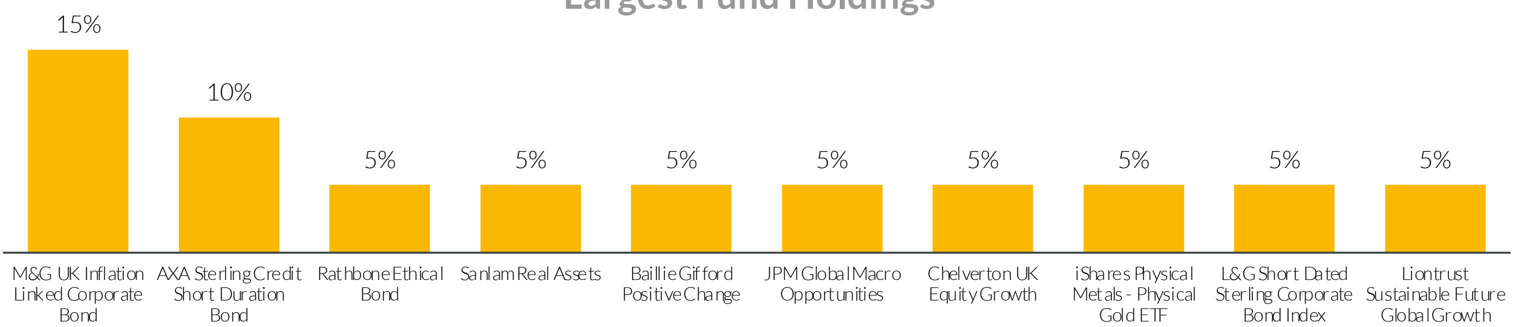
Top Sector Allocation



Asset Allocation



Largest Fund Holdings*



Performance

	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18to 31/12/19	31/12/17 to 31/12/18	31/12/16 to 31/12/17	Cumulative return (since Sep-07)	Annualised return (since Sep-07)
Defensive Portfolio**	7.99%	8.65%	8.19%	-1.69%	4.92%	116.73%	5.57%
ARC Sterling Cautious PCI (Benchmark)	4.09%	2.88%	8.05%	-3.63%	4.48%	64.15%	3.54%

Please remember that past performance is not a guide to the future.

**Key (investor) information documents are available for each fund on request.*
***Performance figures take account of underlying fund charges but not IQ's and platform fees.*

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Quarterly Commentary

Over the fourth quarter of the year, developed markets continued to rally, providing global investors with their third calendar year of strong positive returns. The continuation of accommodative central bank policy, strong corporate earnings growth, and the best year on record for global mergers and acquisitions helped to propel global markets higher throughout most of the year. While market volatility remained low, the emergence of Omicron (a highly infectious variant) combined with a significant rise in global inflation to levels not seen in decades, gave rise to some concern in the latter part of the year. This pickup in inflationary pressures has pushed up the prices of essential goods (such as food), as well as the cost of transport and utilities: more than two-thirds of people around the world are now feeling the squeeze. The Bank of England reacted immediately by raising interest rates to 0.25%, while many other leading central banks reduced their monthly asset buying programmes.

The performance of fixed-income markets remained flat, as they tried to assimilate the effects of higher inflation and likely central bank intervention. Equally, commodities have been among the most volatile assets in 2021 with coffee and crude oil to lithium and gas delivering stellar performances. Other economic challenges came in the shape of global supply chain bottlenecks and labour shortages, as the “Great Resignation” hit the headlines around the world. Nevertheless, Wall Street continued to hit new all-time highs, completing a hat-trick of positive annual returns, its best three-year stretch since 1999, and setting a near 90% return over the past 36 months.

Looking towards 2022, portfolios will need to stay broadly diversified: Covid, inflation and changes to central bank policy are likely to affect market sentiment over the coming months. However, above-trend GDP growth and robust corporate earnings should justify maintaining an overweight asset allocation towards global equities.

Strategy Commentary

Performances have been mixed across funds over the past quarter. The global recovery from the effects of Covid-19 was again disrupted with the emergence of the Omicron variant, with concerns over persistent inflation and rate hikes continuing to unsettle global markets. Nevertheless, this strategy continued to offer adequate capital protection as circumstances evolved. The top three performing funds were **iShares MSCI World ETF (+7.20%), Sanlam Real Assets (+6.64%)** and **Brown Advisory Global Leaders (+6.61%)**. Throughout periods of high inflation, real assets have historically offered more inflation protection, particularly over a full market cycle. In the case of core infrastructure, most of the cash flows are contractual and/or directly linked to inflation, providing a useful hedge against the backdrop of continued inflation during Q4. The Sanlam strategy also pays an attractive income to clients, which could be an added positive in an environment of historically low bond yields.

The worst performing fund over the quarter was **Baillie Gifford Positive Change (-6.35%)**. After a remarkable, sustained period of sector-leading returns, the fund suffered during the fourth quarter due to its overweight in innovative biotechnology companies and high-growth renewable energy businesses. The biotech subsector contributed to weaker performance, with Moderna – a key holding for the portfolio – dropping 34% during the quarter on the back of patent disputes with the National Institutes of Health in the US and third-quarter earnings that were weaker than expected. However, with the fund’s focus on delivering Positive Change by contributing to a more sustainable and inclusive world, we believe it is well placed to navigate short-term volatility and deliver strong returns as investors endeavour to boost the ESG profiles of their portfolios.

Powered by data from FE, data collected: 01/01/2022

Investment Team

Peter Lowman
CIO

Before joining IQ, Peter was a Vice President and Private Client Executive for Morgan Stanley Quilter. Prior to that, he spent thirty years at Cazenove & Co where he worked primarily as an Investment Director for Cazenove Fund Management Limited, as well as serving as Fund Manager for the Cazenove Global Equity Fund.

George Steger
Senior Wealth Manager

After graduating from Exeter in 2012, George joined IQ in 2014 and was appointed Wealth Manager in 2017, providing him with many opportunities to interact with clients. George holds the CFA UK Certificate in Investment Management.

Nick Harrington
Associate Investment Analyst

Nick graduated from Durham in 2019 and joined in January 2020 as part of the IQ Graduate Scheme. Nick currently focuses on North American and Asian markets, alongside assisting the CIO with the firm’s thematic research. Nick holds the CFA UK Certificate in Investment Management.

Holly West
Associate Investment Analyst

Holly graduated from Southampton in 2020 and joined in June 2020 as part of the IQ Graduate Scheme. Holly currently focuses on the UK, European and Emerging markets.